

MEMORANDUM



DATE: February 23, 2005

TO: Members of the Tax Policy Committee

FROM: Jim Stansell, HFA Economist *Jim*

RE: Questions from the 2/16/05 Meeting

There were several questions that arose at the Tax Policy Committee meeting that was held on February 16, 2005. This memo attempts to address some of those questions.

- (1) Representative Sheen asked how the taxation of personal property in Michigan compares with other states. Unfortunately, it is not possible to provide a brief summary due to the overall complexity of tax laws. In general, there is no uniform tax treatment of personal property in other states. Some states exempt it completely (such as Illinois), while others exempt it for manufacturing firms (Connecticut). Ohio taxes personal property at a reduced rate.

There can even be significant differences among those states that tax personal property. Some states exempt certain types of personal property (such as special tools used in manufacturing or inventories), but not others. For example, inventories are exempt in Michigan, but not Kentucky. Indiana exempts inventories of finished goods destined for out-of-state sale.

Even in just these few instances, the tax treatment varies broadly. Multiply this by the number of states that tax personal property, and you can begin to see how complex the issue becomes. I will continue to look at how other states tax personal property, and pass along any information that might be useful.

- (2) Representatives Sheen and Hoogendyk asked questions about Michigan's employment by sector, and where the job losses had occurred. The following table shows employment by sector for 2002 and 2004 (in thousands), the average annual percent change during this period, the percent of total employment in each sector based on the 2004 employment level, and the average annual wage in each sector during 2003.

	<u>2002 Employment</u>	<u>2004 Employment</u>	<u>Average Annual % Change</u>	<u>Percent of Total Private Employment</u>	<u>2003 Average Annual Wage</u>
Total Private Employment	3,790.9	3,701.0	-1.2%	100.0%	\$39,484
Natural Resources & Mining	8.6	7.8	-4.8%	0.2%	\$26,157
Construction	199.6	190.0	-2.4%	5.1%	\$43,128
Manufacturing	760.0	707.1	-3.5%	19.1%	\$55,473
Transportation Equipment	292.6	267.9	-4.3%	7.2%	\$69,277
Services	2,822.8	2,796.1	-0.5%	75.6%	\$35,200
Trade, Transportation, & Utilities	834.2	802.4	-1.9%	21.7%	\$33,235
Information	73.8	67.4	-4.4%	1.8%	\$49,168
Financial Activities	214.9	216.0	0.3%	5.8%	\$45,687
Professional & Business Services	594.4	587.5	-0.6%	15.9%	\$49,458
Education & Health Services	533.5	548.1	1.4%	14.8%	\$35,158
Leisure & Hospitality	397.8	401.5	0.5%	10.8%	\$13,777
Other Services	174.2	173.2	-0.3%	4.7%	\$24,466

I am also attaching two charts that help to depict the employment situation in Michigan over the past few years. The first is similar to what is depicted in the table on the previous page, and shows the total change (not average annual) in several of Michigan's employment sectors from November 2002 through November 2004.

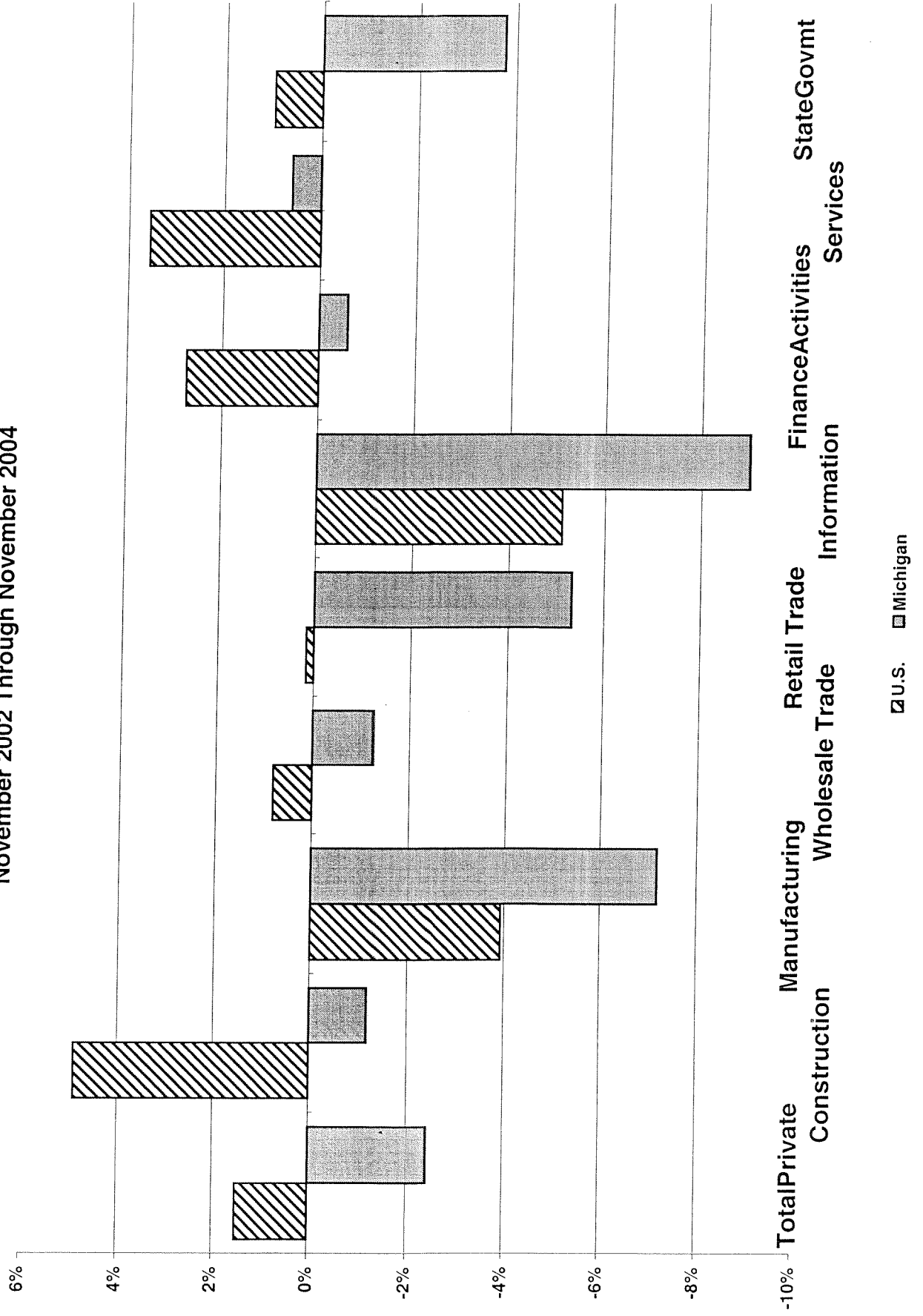
The second chart compares total non-farm employment in the U.S. with Michigan from January 2000 through November 2004. The U.S. reached its employment peak in March 2001 (which coincides with the onset of the national recession). Employment dropped steadily until August 2003, at which point employment gains began to occur.

Although Michigan reach its employment peak in July 2000, a full nine months before the national economy, there is no clear indication that the employment situation is improving. During this period, the Michigan economy has lost almost 350,000 jobs.

- (3) Representative Meisner asked about the origin of the utility property tax credit on the Single Business Tax (SBT). This credit was one of the original provisions of the SBT when it was enacted in 1975

I hope this information is helpful. Please feel free to contact me if you have any additional questions.

% Change in Employment November 2002 Through November 2004



Total Non-Farm Employment % Change From January 2000

